

EXECUTIVE CHAMBERS
State Capitol
Honolulu, Hawaii 96813

GOVERNOR'S MESSAGE TO THE 22ND STATE LEGISLATURE OF
HAWAII MEETING IN THE SECOND REGULAR SESSION 2004

Pursuant to the provisions of Chapter 37 of the Hawaii Revised Statutes, I have the privilege of presenting for your consideration the Executive Supplemental Budget for Fiscal Biennium 2003-05 and the updated Program and Financial Plan for the period 2003-09.

OVERALL SUPPLEMENTAL BUDGET GUIDELINES

Within the framework of the State of Hawaii's biennial budget system, the General Appropriations Act of 2003 (Act 200/SLH 2003) is the primary plan that identifies the needs and authorizes funding for State programs and agencies for the two-year period that begins on July 1, 2003 and ends on June 30, 2005. The Executive Supplemental Budget proposes only a limited number of changes and adjustments that I deem necessary for programs to function in an effective and efficient manner, and that will enable us to meet critical needs and responsibilities.

Staying within the intent of a supplemental budget, the process began with the following general guidelines to all departments and agencies:

1. Program goals are expected to be accomplished within existing funding levels.
2. There will be no increase from current appropriations as authorized in Act 200/2003. Limited exceptions will be allowed for certain critical, unexpected program needs and important Administration initiatives.
3. Trade-off and transfer within and among programs may be proposed to accommodate high-priority activities or to bring about greater operating efficiency.

The recommendations contained herein are the result of hard work and thoughtful consideration by departments and agencies as they strive to meet the public's needs under stringent policy guidelines and fiscal constraints.

FISCAL POLICY

First, let me take this opportunity to convey to you the overall fiscal policy and agenda that I intend to pursue during my Administration. This prudent and conservative plan contains the following main objectives:

1. The State must learn to live within its means. By this, I mean that we must fit our collective needs--deserving as they are--under the real constraint of revenue availability. Ultimately, the resources used by government must be supported and sustained by the economic base. In this context, I believe that the State's budget should not impose an excessive burden on its people and economy. As we will never have enough resources to do everything, working within revenue constraints is a fiscal discipline that will force government to be clear about its priorities.
2. The budget should have structural balance. A budget is structurally balanced when recurring expenses are matched with recurring revenues. If we succeed in maintaining an overall balance, the occasional budget deficits can remain isolated and be managed with one-time actions without seriously distorting the revenue or expenditure structure. Under the current financial condition, we may not get to this goal right away but our commitment to this principle will help realign our revenue and expense parameters as needed.
3. We will pursue Truth in Budgeting by adhering to proper budgeting principles.

We strongly recommend that all funding requirements be identified and placed on the budget to allow for meaningful scrutiny and evaluation of resource allocation. The practice of funding certain requirements by specific appropriations--in effect putting them off the budget--should be used sparingly and reserved for circumstances that truly merit such

considerations. Emergency appropriations and collective bargaining authorizations are two such cases.

We further recommend that budgetary needs of authorized on-going programs, such as those for the Hawaii Health Systems Corporation, be recognized and accounted for in the budget. The practice of providing only partial funding for on-going concerns distorts the budget baseline and puts undue burden on future years.

We shall resist the temptation to resort to the Emergency and Budget Reserve Fund, the State's Rainy Day Fund, as a quick fix for a tight budget. The integrity of this reserve fund should be safeguarded to ensure that the State will have supplemental reserves in a true emergency.

I intend to seek changes in the way budget information is currently presented because good information on the budget is critical to the public's ability to understand and evaluate what we do and how well we do it. While I appreciate the fact that our budget information and documentation must comply with exact and detailed requirements of Chapter 37, HRS, I also believe that we need to have a budget format that aligns with departmental responsibilities, is more transparent about performance standards, and is definitely easier to read. The Director of Finance has initiated steps to bring this about.

4. We will strive to establish fiscal stability and reduce fiscal stress. We know from experience that, despite sound policy and best effort, budget

shortfalls and fiscal crises can occur. This is because the nature of budgeting is such that a lot of assumptions go into the planning numbers. Revenue projections and cost estimates do vary, and external conditions can derail the most careful plans.

To even out the budget fluctuations that can be expected and avoid budget shortfalls that can be disruptive to operations, I propose that we begin earnestly to build an adequate reserve to maintain a degree of fiscal stability in the State budget. The creation of the Emergency and Budget Reserve Fund was a good beginning and I intend to continue to protect this fund.

Along this line, the Hurricane Relief Fund is another source of reserves that I intend to safeguard for future emergencies.

Hawaii has gone through a decade of important and sobering changes. At this juncture, we need to think critically and thoughtfully about the proper role of government in our community--what government should do and what it should not do--and direct public resources strategically to meet our changing priorities.

THE ECONOMY

A strong performance in 2003 and continued moderate growth in the next four years are the latest forecast for Hawaii's economy. While absolute numbers may vary slightly, this general forecast is shared by the Council on Revenues, the Department of Business, Economic Development and Tourism, and professional economists both at the University of Hawaii and in the private sector.

Spearheaded by strong investment in construction and real estate, and further reinforced by steady improvements in tourism, Hawaii has outperformed most states and the U.S. economy in 2003 with the following gains:

- Unemployment rate fell to an average of 3.9% (compared to 6% at the national level) during the first ten months.
- The number of jobs grew by 2.2% and stood at an all-time high. The State was ranked No. 2 in the nation in job growth through September.
- Personal income grew at an annualized rate of 5.2% during the first six months.
- In the third quarter of 2003, Hawaii was ranked No. 2 (behind Nevada) in the Index of State Economic Momentum. (The index is based on three key areas: population growth, personal income growth, and employment growth.)

Thus, the numbers do confirm that Hawaii has recovered from the depth of economic trouble after the September 11, 2001 terrorist attack, although there is still a concern on the global and national fronts. With economic uncertainty and political instability in the world and only a tentative recovery in the United States, we remain cautiously optimistic about Hawaii's economic future in the near term.

REVENUE PROJECTIONS

At its most recent meeting on September 15, 2003, the Council on Revenues projected that general fund revenues to the State will grow by 6.2% in FY 2004 and by 6.9% in FY 2005. Revenue growth for the four out-years (2006-2009) was forecast to be in the range of 5.3% to 6.8%. These projections show clear improvements over past collections, which saw a decline of -3.5% in FY 2002 and only a moderate increase of 4.4% in FY 2003.

As of October 2003, the cumulative growth for general fund tax revenues in the first four months of FY 2004 was 3.4%.

THE STATE'S GENERAL FUND FINANCIAL PLAN

The State's FY 2003 began with a carry-over balance of \$134 million in the General Fund and ended with a \$117.2 million balance on June 30, 2003. This balance was achieved through a combination of a hiring freeze and strict budgetary measures to reduce statewide spending. It was also helped by improving revenues.

For the current FY 2004, with higher revenue projections from the September forecast of the Council on Revenues, the preliminary spending restrictions were lifted and full funding at authorized levels was restored. However, as a matter of fiscal prudence, we continue to watch over expenditures with a cautious view, and the hiring freeze remains in effect.

In the days to come, legislative proposals from the Administration will be submitted for your consideration to address programmatic concerns and initiatives. Among

them will be measures that may have a significant financial impact on the State. Taking into account the additional requests contained in this Executive Supplemental Budget and the fiscal impact of legislative proposals to be submitted, the ending balance in the General Fund is projected to be \$105.9 million in FY 2004 and \$94.4 million in FY 2005. The General Fund financial plan shows a positive number for each year in the planning period as well.

At this time, collective bargaining costs, if any, have not yet been determined for those units that are still in negotiation or have not gone through formal arbitration. Therefore, no adjustments for collective bargaining costs have been included in the Supplemental Budget for those units.

The Multi-Year General Fund Financial Plan is presented on page 78 of this document.

The State's prudent approach in managing its budget in challenging and uncertain times has been favorably recognized by credit rating agencies. Presently, Hawaii maintains a Aa3 rating by Moody's and AA- by both Standard & Poor's and Fitch, with a stable outlook.

THE PROGRAM AGENDA

In this Supplemental Budget, besides the necessary adjustments to provide for the health, safety, and welfare of our people and communities, the recommendations reflect the decisions and priorities I

have established in FY 2005 and the four additional years in the planning period. The critical areas that are of highest priority are: education, the economy, the environment, healthcare, and public safety.

Education

First and foremost, education remains the top priority of this Administration. While the State spends a considerable amount of resources on education, our students continue to rank at or near the bottom in every measure of student achievement. This condition is not acceptable and I intend to move forward on improving and reforming Hawaii's education system. This improvement must come in the form of structural changes, rather than from simply increasing the Department of Education's budget. Furthermore, State educational resources must be redirected to the classroom.

In addition to redirecting education dollars down to the school level, it is also important that we address the serious backlog of repair and maintenance projects in our schools. To this end, I am requesting \$90 million in general obligation (G.O.) bonds for improvements to public school facilities to render them safe and functional. Parallel to this is a request of \$25 million to the University of Hawaii for major repair and maintenance projects and infrastructure improvements throughout the system.

To provide funding for the critical operating needs of our schools, the Supplemental Budget includes \$25.9 million for support of the charter schools,

\$1 million for library books and materials, and \$211,140 and 15 positions for the school security attendant program.

The Economy

A strong and stable economy is what provides jobs, income, and well being for the people of Hawaii. I would like to acknowledge the positive steps taken by my predecessor, Governor Cayetano, and the Legislature in reducing the personal income tax rates in Hawaii in 1999, 2001 and 2002. This action, together with other tax incentives for business, has helped Hawaii's economy show an encouraging performance in 2003.

This Administration intends to build upon this progress by encouraging pro-jobs activities that make a real contribution to our economy, and by stepping up efforts to bring down the cost of workers' compensation and health insurance. Pro-jobs initiatives include: obtaining federal financial support for the electric vehicle demonstration project, continuing the National Defense Center of Excellence for Research in Ocean Sciences (CEROS), reinvigorating marketing initiatives in the Department of Business, Economic Development and Tourism, and continuing efforts to revitalize the Kakaako development district.

The Environment

We must continue to work hard to protect and preserve our rich but fragile environment. This budget demonstrates our resolve through a series of capital improvement expenditures to repair and maintain our marine resources and our State parks: \$2.4 million for Kuhio Beach improvements, \$18.2 million for the Waimanalo Wastewater Treatment Plant, \$10 million for renovations at small boat harbors, and \$14 million for statewide improvements at State parks. Additionally, I am including a recommendation of \$5 million (to be matched with county, federal, and private dollars) to strengthen our commitment to controlling invasive species. If sufficient funds exist, I intend to continue this initiative in the next fiscal biennium.

Healthcare

As the "Healthy State," Hawaii will continue to be vigilant about protecting and promoting the general health and well being of its people. In delivering a high-quality and well-integrated system of health services, the State must ensure that all of its citizens have access to basic healthcare. To this end, we are requesting an additional \$2.7 million to provide primary care for uninsured persons needing medical, dental, and behavioral health services throughout the community health centers, \$5 million (to be matched with increased federal funds) to provide medical insurance coverage under the QUEST program for more residents without health insurance, and \$7.3 million to restore healthcare funding for people covered by the Compact of Free Association. We are also recommending a major commitment to the Adult Mental Health programs (54 positions and \$18.5 million)

to address caseload increases in the Community Mental Health Centers and patient overflow from the Hawaii State Hospital.

Public Safety

The State's correctional system continues to face critical challenges in terms of inmate overcrowding, aging facilities, and a high demand for treatment services. Funding is requested in this Supplemental Budget to plan for new facilities to replace the Community Correctional Centers on Oahu and Kauai and reauthorize the construction and equipment phases on Maui. To alleviate overcrowding, additional funds are included to cover increased expenses for out-of-state inmate contracts (\$1.2 million), to send an additional 200 inmates to out-of-state facilities (\$5.1 million), and to house an additional 25 in the Federal Detention Center in Honolulu (\$0.9 million). \$430,000 is recommended for various treatment programs for the parole population on Oahu.

THE EXECUTIVE SUPPLEMENTAL BUDGET RECOMMENDATIONS

The Operating Budget

For FY 2004, the proposed adjustments include:

- Reduction in debt service by \$15.8 million in general funds and \$11.1 million in interdepartmental transfer due to issuance of refunding G.O. bonds and lower interest rates on new issuances.

- Reduction of \$3.5 million in general funds to reflect savings generated by the one-time increase in federal funds for the Medicaid/QUEST program under the Jobs and Growth Reconciliation Act of 2003.

For FY 2005, total proposed adjustments to the budget amount to a net increase of \$311 million from all means of financing, as shown below.

Table 1. FY 05 Supplemental Operating Budget Request
All Means of Financing

	<u>FY 05</u> <u>Act 200/03</u> <u>Appropriation</u> <u>(\$)</u>	<u>FY 05</u> <u>Proposed</u> <u>Adjustment</u> <u>(\$)</u>	<u>FY 05</u> <u>Recomm'd</u> <u>Appropriation</u> <u>(\$)</u>
General Fund	3,824,595,181	86,832,594	3,911,427,775
Special Funds	1,453,070,820	140,049,815	1,593,120,635
Federal Funds	1,347,565,230	77,702,052	1,425,267,282
Trust Funds	39,617,759	514,430	40,132,189
Revolving Funds	294,849,985	15,936,894	310,786,879
Interdept. Transfer	654,672,039	(10,069,853)	644,602,186
Other Funds	11,196,360	0	11,196,360
County Funds	200,000	0	200,000
Private Contribution	122,500	0	122,500
Total:	7,625,889,874	310,965,932	7,936,855,806

The distribution by department is as follows:

Table 2. FY 05 Supplemental Operating Budget Request
By Department (All MOF)

	<u>FY 05</u> <u>Act 200/03</u> <u>Appropriation</u> <u>(\$)</u>	<u>FY 05</u> <u>Proposed</u> <u>Adjustment</u> <u>(\$)</u>	<u>FY 05</u> <u>Recomm'd</u> <u>Appropriation</u> <u>(\$)</u>
Agriculture	30,165,163	171,917	30,337,080
Acct. & Gen. Svcs.	117,242,875	8,919,410	126,162,285
Attorney General	66,890,478	746,980	67,637,458
Bus., Econ. Dev. & Tourism	266,760,112	(84,462,195)	182,297,917
Budget & Finance	1,158,417,029	(27,924,584)	1,130,492,445
Comm. & Consmer Aff.	37,520,465	836,937	38,357,402
Defense	18,896,607	1,155,035	20,051,642
Education	1,726,623,176	24,294,756	1,750,917,932
Libraries	29,097,497	1,520,743	30,618,240
Governor	3,294,991	287,803	3,582,794
Hawaiian Home Lands	8,449,593	0	8,449,593
Human Services	1,407,964,413	173,008,278	1,580,972,691
Human Resources Dev.	19,461,038	3,057,965	22,519,003
Health	622,725,874	45,133,288	667,859,162
HI Health Sys. Corp.	260,637,937	73,420,000	334,057,937
Labor & Ind. Rel.	296,682,074	286,042	296,968,116
Land & Natural Res.	70,210,093	6,478,813	76,688,906
Lt. Governor	8,035,179	(6,813,377)	1,221,802
Public Safety	170,557,704	10,104,276	180,661,980
Taxation	19,828,402	3,933	19,832,335
Transportation	536,830,897	60,918,400	597,749,297
University of Hawaii	749,598,277	19,821,512	769,419,789
Total:	7,625,889,874	310,965,932	7,936,855,806
		4.08%	

Of the total proposed adjustments, \$86.8 million is financed by the General Fund. Distribution is as follows:

Table 3. FY 05 Supplemental Operating Budget Request
By Department (General Funds)

	<u>FY 05</u> <u>Act 200/03</u> <u>Appropriation</u> <u>(\$)</u>	<u>FY 05</u> <u>Proposed</u> <u>Adjustment</u> <u>(\$)</u>	<u>FY 05</u> <u>Recomm'd</u> <u>Appropriation</u> <u>(\$)</u>
Agriculture	12,763,975	35,394	12,799,369
Acct. & Gen. Svcs.	76,029,481	3,564,915	79,594,396
Attorney General	21,158,275	466,980	21,625,255
Bus., Econ. Dev. & Tourism	18,428,596	(5,732,653)	12,695,943
Budget & Finance	554,208,975	(16,358,082)	537,850,893
Comm. & Consmer Aff.	0	0	0
Defense	9,325,187	427,598	9,752,785
Education	1,462,917,782	3,656,387	1,466,574,169
Libraries	25,107,253	1,020,743	26,127,996
Governor	3,294,991	191,803	3,486,794
Hawaiian Home Lands	1,277,007	0	1,277,007
Human Services	584,812,702	32,646,748	617,459,450
Human Resources Dev.	13,874,757	3,057,965	16,932,722
Health	344,493,353	20,814,969	365,308,322
HI Health Sys. Corp.	0	31,220,000	31,220,000
Labor & Ind. Rel.	17,405,999	14,663	17,420,662
Land & Natural Res.	26,109,133	3,322,219	29,431,352
Lt. Governor	3,611,690	(2,389,888)	1,221,802
Public Safety	152,965,621	9,247,388	162,213,009
Taxation	18,334,150	3,933	18,338,083
Transportation	0	0	0
University of Hawaii	478,476,254	1,621,512	480,097,766
Total:	3,824,595,181	86,832,594 2.27%	3,911,427,775

Operating Highlights

The FY 2005 Supplemental Operating Budget requests include the following significant items:

Department of Business, Economic Development and Tourism

- \$500,000 in general funds for various business marketing initiatives.
- \$8,000,000 in special funds for tourism marketing activities.
- \$22,896,862 to reflect the receipt of federal funds, including funding for the electric vehicle demonstration project, technology development, coastal zone management, energy, and business marketing.

Department of Budget and Finance

- Reduction in debt service by \$16,487,105 due to issuance of refunding G.O. bonds and lower interest rates on new issuances.

Department of Education

- \$8,662,542 as adjustment to the base budget to reflect full-year funding of collective bargaining expenses for Unit 1 (blue collar employees) and Unit 5 (teachers) under the previous contract.
- \$25,886,070 to the Charter School (new EDN 600) program based on the per pupil formula established under Act 203, SLH 2003.

- \$12,262,811 in federal funds to reflect increased revenues from No Child Left Behind and Individuals with Disabilities Education Act.
- Reduction in debt service for school facilities by \$7,913,922 due to issuance of refunding G.O. bonds and lower interest rates on new issuances.
- Reduction of 75.00 positions and \$1,903,317 due to declining enrollment.
- \$2,500,000 to address funding shortfalls in Student Transportation.
- \$3,464,418 for the Afterschool (A+) program.
- \$1,000,000 for supplies for school restroom facilities, statewide.
- \$480,000 for teacher differentials and reimbursements under the National Board Certification program.
- 15.00 positions and \$211,140 for the school security attendant program.

Hawaii State Public Library System

- \$1 million in general funds for library books and materials.

Department of Human Services

- \$6,780,169 in general funds and \$19,151,044 in federal funds for QUEST managed care health program to cover higher enrollment and capitation rates.

- \$250,000 in general funds and \$2,250,000 in federal funds to implement changes required under the federal Health Insurance Portability and Accountability Act.
- 6.00 temporary general fund positions and \$190,152 in general funds for reopening the Hookipa Makai Facility at the Hawaii Youth Correctional Facility to reduce overcrowding.
- \$1,000,000 in general funds and \$2,142,052 in federal funds for the Residential Alternatives Community Care program.
- \$7,300,000 in general funds to restore healthcare funding for people covered by Compact of Free Association.
- \$3,645,034 in general funds for increasing Out-of-Home Child Placement (foster care) costs.
- \$5,000,000 in general funds and \$7,165,450 in federal funds for the QUEST managed care health program to provide medical insurance coverage to more island residents without health insurance.

Department of Human Resources Development

- \$3,055,896 in general funds for increased workers' compensation obligations.

Department of Health

- \$2,695,560 for primary care services for uninsured persons.

- Reduction of \$4,194,748 from Child and Adolescent Mental Health Division (CAMHD) due to declining caseloads and more effective cost controls. Of this amount, \$3,459,092 was transferred to other Department of Health (DOH) programs requiring additional funds.
- \$2,750,820 for additional matching funds for services to Medicaid eligible clients with developmental disabilities.
- 54.00 positions and \$14,473,455 to address caseload increases in the Community Mental Health Centers and to provide contracted services to patients, as required by the court-ordered community mental health plan.
- \$4,036,902 for contract with Kahi Mohala to accommodate overflow of patients from Hawaii State Hospital.
- \$22,026,250 in special funds and 6.00 temporary positions for the Deposit Beverage Container program.

Department of Land and Natural Resources

- \$5 million for a statewide federal/State/county/private partnership for invasive species prevention and control program.

Department of Public Safety

- \$5,057,330 in general funds to send an additional 200 inmates to out-of-state facilities.

- \$1,204,858 in general funds for increased expenses for out-of-state inmate contracts.
- \$890,651 in general funds to send an additional 25 inmates to the Federal Detention Center, Honolulu.
- \$430,000 in general funds to provide substance abuse treatment, sex offender treatment, and transition skills and job development services for the Oahu parole population.

Department of Transportation

- \$3,500,000 in special funds for increased security for all Oahu Commercial Ports.
- Special funds increases for security at various harbors statewide: Barbers Point (\$122,304), Hilo (\$142,947), Kawaihae (\$29,317), Kahului (\$177,000), and Nawiliwili (\$223,000).

University of Hawaii

- 20 positions and \$1,724,365 in general funds for Kakaako University Health Science Library.
- 16 positions and \$1,800,654 in general funds for John A. Burns Medical School core facilities.
- 10 positions and \$767,000 in general funds for a system-wide Creative Media program.
- Reduction in debt service by \$3,652,580 in general funds due to refinancing G.O. bonds and lower interest rates.

- \$15,000,000 increase of the Research and Training Revolving Fund ceiling.

The Capital Improvement Budget

For FY 2004, a reduction of \$6 million in G.O. bond funds is recommended for the Hilo Veterans Home project.

For FY 2005, the proposed adjustments amount to a total of \$539.3 million to be funded from the following sources:

Table 4. FY 05 Supplemental CIP Budget Request
All Means of Financing

	<u>FY 05</u> <u>Act 200/03</u> <u>Appropriation</u> <u>(\$)</u>	<u>FY 05</u> <u>Proposed</u> <u>Adjustment</u> <u>(\$)</u>	<u>FY 05</u> <u>Recomm'd</u> <u>Appropriation</u> <u>(\$)</u>
G.O. Bonds	147,327,000	247,923,000	395,250,000
G.O. Bonds Reimburs.	650,000	10,650,000	11,300,000
Revenue Bonds	28,249,000	118,215,000	146,464,000
Special Funds	65,800,000	19,290,000	85,090,000
Federal Funds	67,938,000	137,015,000	204,953,000
Revolving Funds	0	6,200,000	6,200,000
Total:	309,964,000	539,293,000	849,257,000

By department, the distribution is as follows:

Table 5. FY 05 Supplemental CIP Budget Request
By Department (All MOF)

	<u>FY 05</u> <u>Act 200/03</u> <u>Appropriation</u> <u>(\$)</u>	<u>FY 05</u> <u>Proposed</u> <u>Adjustment</u> <u>(\$)</u>	<u>FY 05</u> <u>Recomm'd</u> <u>Appropriation</u> <u>(\$)</u>
Agriculture		6,750,000	6,750,000
Acct. & Gen. Svcs.	16,050,000	95,900,000	111,950,000
Bus., Econ. Dev. & Tourism	1,327,000	38,317,000	39,644,000
Budget & Finance	115,800,000	0	115,800,000
Defense	1,267,000	1,500,000	2,767,000
Education	46,300,000	20,000,000	66,300,000
Libraries	0	6,029,000	6,029,000
Governor	1,000	0	1,000
Human Services	0	9,760,000	9,760,000
Health	22,179,000	0	22,179,000
HI Health Sys. Corp.	0	6,000,000	6,000,000
Land & Natural Res.	3,400,000	56,952,000	60,352,000
Public Safety	0	27,595,000	27,595,000
Transportation	96,730,000	245,490,000	342,220,000
University of Hawaii	6,910,000	25,000,000	31,910,000
Total:	309,964,000	539,293,000	849,257,000

Of the total proposed CIP adjustments, \$258.6 million is financed by G.O. and G.O. Reimbursable bonds. Distribution is as follows:

Table 6. FY 05 Supplemental CIP Budget Request
By Department (G.O./G.O.R. Bonds)

	FY 05 Act 200/03 <u>Appropriation</u> (\$)	FY 05 Proposed <u>Adjustment</u> (\$)	FY 05 Recomm'd <u>Appropriation</u> (\$)
Agriculture		3,500,000	3,500,000
Acct. & Gen. Svcs.	16,050,000	93,850,000	109,900,000
Bus., Econ. Dev. & Tourism	1,327,000	9,912,000	11,239,000
Budget & Finance	115,800,000	0	115,800,000
Defense	1,167,000	375,000	1,542,000
Education	0	20,000,000	20,000,000
Libraries	0	6,029,000	6,029,000
Governor	1,000	0	1,000
Human Services	0	9,760,000	9,760,000
Health	3,697,000	0	3,697,000
HI Health Sys. Corp.	0	6,000,000	6,000,000
Land & Natural Res.	3,025,000	56,552,000	59,577,000
Public Safety	0	27,595,000	27,595,000
University of Hawaii	6,910,000	25,000,000	31,910,000
Total:	147,977,000	258,573,000	406,550,000

CIP Highlights

The FY 2005 Supplemental Budget requests for capital improvements include the following significant projects:

Department of Agriculture

- \$3,000,000 in G.O. bond funds and \$3,250,000 in federal funds for the Upcountry Maui Watershed Project.

Department of Accounting and General Services

- \$90,000,000 in G.O. bond funds for major repairs and maintenance of public school facilities.
- \$800,000 in G.O. bond funds to begin planning and design of an access road from Kalaniana'ole Highway to Kailua High School.

Department of Business, Economic Development and Tourism

- \$9,000,000 in G.O. bond funds to the Hawaii Community Development Authority for roadway improvements to the Kakaako Waterfront area to coincide with the construction of the Department of Transportation's proposed cruise ship terminal.
- \$2,000,000 in G.O. bond funds for major repairs and maintenance of the Hawaii Convention Center.
- \$8,405,000 in re-authorized revenue bond funds to construct building C at Maui Research and Technology Center.

Department of Education

- \$6,000,000 in G.O. bond funds for a new administration building/library building and the renovation of temporary facilities at Kealahou Intermediate School.

- \$2,000,000 in G.O. bond funds to provide additional construction funds for new six-classroom building at Hana High and Elementary School.
- \$12,000,000 in G.O. bond funds to provide additional construction funds for the new Ocean Pointe Elementary School.

Department of Human Services

- \$6,620,000 in G.O. bond funds for design and construction to continue work to renovate, repair and modernize State owned housing projects.
- \$2,000,000 in G.O. bond funds for design and construction to close large capacity cesspools and upgrade wastewater treatment for State and federal public housing projects on the Big Island.

Hawaii Health Systems Corporation

- \$3,087,000 in G.O. bond funds for Hilo Medical Center to renovate and expand the emergency room.
- \$1,725,000 in G.O. bond funds for Leahi Hospital for various repairs and upgrade of facilities.
- \$713,000 in G.O. bond funds for Kula Hospital for various repairs and upgrade of facilities.

Department of Land and Natural Resources

- \$18,190,000 in G.O. bond funds for the Waimanalo Wastewater Treatment Plant improvements.

- \$9,000,000 in G.O. bond funds for cesspool replacement and \$5,000,000 in G.O. bond funds for State parks comfort station improvements, statewide.
- \$2,390,000 in G.O. bond funds for Kuhio Beach improvements.
- \$10,000,000 in reimbursable G.O. bond funds for various renovations to small boat harbors statewide.

Department of Public Safety

- \$18,735,000 in G.O. bond funds to reauthorize the construction and equipment phases of the Maui Community Correctional Center.
- \$5,960,000 in G.O. bond funds for the Halawa Correctional Facility, Life Safety Code Improvements.
- \$1,500,000 in G.O. bond funds to plan for a new replacement facility for the Oahu Community Correctional Center.
- \$475,000 in G.O. bond funds to plan for a new replacement facility for the Kauai Community Correctional Center.

Department of Transportation

- \$24,000,000 (\$4,800,000 revenue bonds; \$19,200,000 federal funds) for improvements to North/South Road, Kapolei Parkway to vicinity of Interstate Route H-1, Oahu.

- \$30,000,000 (\$6,000,000 revenue bonds; \$24,000,000 federal funds) for widening or realignment of Honoapiilani Highway from Honokowai to Launiupoko, Maui.
- \$30,000,000 (\$6,000,000 revenue bonds; \$24,000,000 federal funds) for pedestrian facilities and ADA compliance at various highway locations, statewide.
- \$12,470,000 (\$5,700,000 revenue bonds; \$6,770,000 federal funds) for terminal improvements at Kahului Airport, Maui.
- \$28,250,000 (\$12,250,000 revenue bonds; \$16,000,000 federal funds) for inline baggage improvements at Honolulu International Airport, Oahu.
- \$30,425,000 (\$11,800,000 revenue bonds; \$8,625,000 federal funds) for inline baggage improvements at Kahului Airport, Maui.
- \$10,000,000 in special funds for improvements to cruise terminal at Pier 2, Honolulu Harbor, Oahu.
- \$20,000,000 in revenue bonds for improvements to container yard at Pier 51B, Honolulu Harbor, Oahu.
- \$11,500,000 in revenue bonds for improvements to container yard at Sand Island, Honolulu Harbor, Oahu.

University of Hawaii

- \$25,000,000 for major repairs and maintenance, safety code compliance, and infrastructure improvements, statewide.

THE GENERAL FUND EXPENDITURE CEILING

By law, general fund appropriations must comply with the expenditure ceiling requirements that are set forth in Section 9, Article VII of the Hawaii State Constitution and Section 37-92 of the Hawaii Revised Statutes.

At the aggregate level that includes all branches of government, total proposed appropriations from the General Fund are within the expenditure ceilings for both FY 2004 and FY 2005.

For the Executive Branch, total proposed appropriations from the General Fund (which include the Executive Supplemental Budget for FB 2003-05 and other specific appropriation measures to be submitted) are within the appropriation ceiling in FY 2004 but will exceed the appropriation ceiling in FY 2005 by \$35,340,665 (or 0.9%). The reasons for this excess are due to the substantial requirements in a number of health and human services programs that did not receive sufficient funding in Act 200/2003.

A summary statement on the General Fund expenditure ceiling and Executive Branch appropriation ceiling is presented on page 82 of this document.

THE DEBT LIMIT

Section 13, Article VII of the Hawaii State Constitution places a debt limit on G.O. bonds that may be issued by the State. It has been determined that the total amount of principal and interest calculated on a) all bonds issued and outstanding, b) all bonds authorized and unissued, and c) all bonds proposed in the Supplemental

Budget, including State guaranties, will not cause the debt limit to be exceeded at the time of each bond issuance.

The Declaration of Findings with respect to the G.O. bond debt limit is presented on page 86 of this document.

In summary, I respectfully ask for your favorable consideration of the recommendations presented herein and look forward to working with you in the upcoming session to bring forth a Supplemental Budget that is fiscally prudent and responsive to the real needs of our communities.

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Lingle", written in a cursive style.

LINDA LINGLE
Governor of Hawaii